



## Telecommunication Scams Using FCC Licenses

### Fast Facts

- ◆ Fraudulent investments in high technology and Federal Communications Commission (FCC) licenses are a fast growing scam.
- ◆ If a company calls you touting the profits and minimizing the risks of investing in communications systems and licenses, hang up the phone.
- ◆ An FCC license is mere *permission* to use radio spectrum (the airwaves) to provide communications services. A license holder must develop a communications system to make the license valuable and comply with FCC rules.
- ◆ Fraudulent telemarketers often take most of the money they solicit from consumers as profit and commissions.



Federal Trade Commission  
Bureau of Consumer Protection  
Office of Consumer & Business Education  
202-FTC-HELP [www.ftc.gov](http://www.ftc.gov)

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### THE APPEARANCE OF LEGITIMACY

Fraudulent investments in high technology and FCC licenses have become one of the fastest growing scams of the 1990's, costing consumers hundreds of millions of dollars. Scam artists tell investors they can make a lot of money with little financial risk just by "owning airwaves" — without developing communications systems.

The FCC grants a variety of telecommunications licenses — permission to use radio frequencies — to individuals and entities who seek to provide telecommunications services to the public. With few exceptions, these licenses are available to everyone.

Scam artists have found a way to exploit public interest in telecommunications by marketing fraudulent investments in new technologies that often require FCC licenses. These fraudulent telemarketers deceptively portray mere ownership of FCC licenses or communications businesses as golden opportunities to participate in the industry without substantial capital or business experience.

**LICENSE APPLICATION SERVICES** often charge consumers thousands of dollars to apply for FCC licenses. In most instances, however, the actual license application process costs a fraction of what the services charge. Scam artists say that legitimate communications companies will lease or buy consumers' licenses, even though a market for such licenses rarely

exists. Legitimate communications providers typically apply for licenses themselves and acquire operational communication businesses — not bare licenses. Moreover, leasing or selling arrangements may violate FCC rules and lead to *loss of the license*.

Scam artists have repeated this pattern for numerous FCC licenses. *Do not invest in any of these licenses unless you are prepared to spend time and money developing telecommunications systems:*

- ◆ **Paging** refers to the transmission of signals or messages along the 929, 931, and 454 MHz broadcast bands, among others. Scam artists claim paging companies will lease paging licenses from consumers to provide lucrative, two-way paging services to the public. In fact, no such leases are likely. Often, licensees have frequencies that may allow only one-way paging or that must be shared with other licensees. If licensees try to develop their own systems, they may find themselves facing stiff competition from established paging companies.
- ◆ **Specialized Mobile Radio (SMR)** refers to dispatch services using the 220, 450, 800, and 900 MHz broadcast bands. Scam artists describe these licenses as frequencies that can be developed to compete with cellular telephone companies. However, the single channels and five-channel blocks fraudulent telemarketers are promoting are incapable of accommodating enough telephone traffic to allow such competi-

tion. Large SMR providers are acquiring large, developed systems and generally are not buying or leasing single-channel licenses alone.

- ◆ **Wireless Cable.** During the 1980's, the FCC held lotteries for wireless cable licenses in 4-channel blocks. Scam artists charged thousands of dollars for application services, falsely describing the application process and the potential for competition with cable television operators. Investors — who typically received frequencies of little value and questionable capacity to provide competitive cable services — had to spend millions more developing cable systems to compete against established wired-cable operators and satellite TV broadcasters.

**PARTNERSHIPS, or LIMITED-LIABILITY COMPANIES (LLCs)**, also have been formed by scam artists, supposedly to raise capital to develop communications systems for wireless cable, interactive video, or mobile phone services. In fact, most of the money raised in these scams goes to the scammers' profit and marketing expenses. Consumers are left in need of substantial additional capital to operate the business and provide the types of services promoted by fraudulent telemarketers:

- ◆ **Interactive Video and Data Service (IVDS)** is licensed by FCC auction for a *small amount* of radio spectrum to allow IVDS users to send data responses to such interactive TV programming as ads, polls, and game shows.

Scam artists raise funds from investors to bid for licenses and develop IVDS systems, touting services IVDS can't perform, such as "movies on demand." These scammers leave consumers little capital to develop an IVDS system or complete the payments to the FCC for the licenses they were to receive.

- ◆ **SMR Partnerships** are sold by fraudulent telemarketers who claim to acquire groups of SMR licenses or systems so investors can enhance them to provide mobile phone services to compete with cellular telephone systems. In fact, these telemarketers have pocketed substantial amounts of investor money, leaving consumers unable to afford the enhancements, which cost millions of dollars more than the telemarketers promised. Moreover, scam artists frequently don't acquire sufficient SMR channels to compete with established mobile phone service providers, who usually develop large numbers of channels to attract subscribers.

- ◆ Fraudulent **Wireless Cable** partnerships also have been formed by scam artists, leaving consumers with insufficient channels to provide cable service and limited capital to operate a business.

As new radio frequencies are licensed, such as for **Personal Communication Services (PCS)**, these scams are likely to continue. It is important to understand the risks involved in such investments, and the obligations you would have as a license holder. You may be required to spend more money to comply with FCC rules or recover your investment,

while big communications companies are competing with you, applying for their own licenses and developing their own systems.



## AVOIDING FRAUD

- ◆ *Be suspicious of any telemarketer who refuses to provide all representations in writing.* This is particularly true of profit projections or estimates of how much money you have to invest before you receive a return on your investment. Be particularly suspicious of any oral representations that conflict with written materials. Scam artists often refuse to provide representations in writing because they do not want to leave evidence that they have lied.
- ◆ *Be skeptical about any unsolicited phone calls about investments.* Think twice before you buy investments from salespeople you do not know. Remember that an unsolicited call can be made from any locale, including a jail cell.
- ◆ *Be suspicious of sales pitches that downplay risk or portray written risk disclosures as routine formalities required by the government.* If risk disclosures tell you that you could lose your whole investment, believe them! If you are spending thousands of dollars over the phone, be prepared to lose your money.
- ◆ *Be suspicious of promotional materials or telemarketers that **do not** tell you about investment risks.* No potential high-profit investment is low-risk.

◆ *Do not be impressed by a smooth sales pitch or descriptions of high technology riches.* Scam artists spend years going from fraud to fraud. Their years of sales experience make them clever liars. They have an answer for everything — often because they have scripts designed to hide the truth. If a promotion promises high profits and low risk, **hang up the phone.**

◆ *Be cautious of investment promotions comparing your potential investment to those made by well known businesses and individuals.* These investors generally achieved their gains by investing thousands, if not millions, of dollars developing communications business, **not** by giving their money to telemarketers.

◆ *Be wary of claims that you can apply for a license and let other companies buy, lease, and develop it.* In almost all instances, the FCC prohibits the acquisition of licenses for speculation or profitable resale. Moreover, in all instances — whether the license is for television, cable, video, mobile phone, or paging transmission — the FCC requires **the license holder** to construct an appropriate communications system for the license, usually within one year.

◆ *Beware of telemarketers who emphasize the “bells and whistles” of cutting-edge technology.* Fraudulent FCC-application preparers falsely describe one-way, shared paging licenses as two-way paging and mobile phone service fre-

quencies. Fraudulent IVDS promoters use “movies-on-demand” hype to sell licenses that allow transmission of small amounts of data. First, an undeveloped license provides *no* services without substantial capital investment. Second, many systems and licenses marketed to investors on the telephone will not be able provide the services that make the opportunity seem attractive.

◆ *Beware of promoters who say it is urgent to invest.* If investments are truly fast and furious, savvy entrepreneurs already will have captured them. Salespeople who need to call unknown investors over the phone (“cold calls”) are not likely to be pitching high-quality investments. Once you send your money to a fraudulent operation, it may be gone forever.

◆ *Do not trust any representations that well-known telecommunications companies will develop systems for your license or buy your license from you for a profit.* Talk to representatives of the companies to gauge their interest in acquiring your license *before* you invest.

◆ *Ask how much of the investment is going to “profit,” “commissions,” “broker’s fees,” or “marketing costs.”* Fraudulent FCC application services usually charge thousands of dollars for applications that cost hundreds of dollars. Fraudulent promoters of partnerships and LLCs leave consumers with little working capital and minimal assets for the millions they supposedly raise. The worth

of most communications investments can be measured in how much money is spent on developing or acquiring communications systems, **not on telemarketers.** The more money that goes to sales expenses and costs, the greater the risk and the lower your return.

◆ *Do not be fooled by slick promotional materials, high-profile addresses (like Wall Street), or 1-800 telephone numbers.* Anyone can produce brochures at a local copy center, buy a toll-free number, and rent a mailbox at a prestigious address.

◆ *Demand proof for profit claims.* Legitimate telemarketers have a basis for their projections. Ask for published data to back up all claims. Be wary of general statements that the industry is profitable. You must be certain that the actual license or system you will acquire will be profitable. Disregard projections qualified as company opinions.

◆ *Determine how much money you will have to spend to obtain a return on your investment.* Keep in mind that developing advanced communications systems can cost millions of dollars. Fraudulent telemarketers may tell you the cost of high-technology is dropping to prices you or your partnership can afford, but they may be describing rudimentary systems, not those capable of providing the advanced services they’re pitching.

- ◆ *Remember that the communications industry is highly competitive.* In most areas, companies with substantial capital compete to provide communications services. As a license holder or share holder in a partnership or company holding a license, you may have to compete with these companies to recover your investment.
- ◆ *Talk to someone at the FCC about the status of the license application process.* Wireless cable applications were frozen in April 1992. IVDS auctions were completed for most of the top markets in July 1994, and auctions for the remaining licenses have not yet been scheduled. As of October 1995, the FCC was no longer accepting direct applications for 800 and 900 MHz SMR licenses.
- ◆ *Consult someone whose financial advice you trust — a banker, a lawyer, or an accountant.* A registered securities broker also may give you insight into investing in high-tech industries.
- ◆ *Find out if complaints have been registered against the company with your state Attorney General.* Remember that scam artists often change names and locations. Just because there are no complaints on file does not mean a business is trustworthy. New — or re-named — frauds simply have no record of wrongdoing.



## PREPARING FOR RETIREMENT?

- ◆ *Protect your retirement funds.* Many scam artists may tell you their investments have been approved for the use of Individual Retirement Account Funds. There is no formal, governmental approval process for certifying the appropriateness of funds for IRA status. Consult a tax advisor or attorney before using IRA funds as investments in a profit-making enterprise. Your investment decision may have tax consequences.
- ◆ *Be cautious about promised income streams.* Scam artists exploit consumers' concerns about having income after retirement. Profits in telecommunications often are long-term at best and usually require spending thousands, if not millions, of dollars on communications systems development, not license acquisition.



## IF YOU HAVE INVESTED

- ◆ *You may be targeted by companies who claim they can recover your investment or market your license through their broker service.* Be skeptical of any company that charges an up-front fee. These companies may be violating federal regulations. License brokers may pocket the up-front fee and do nothing to market your license.

- ◆ *Even law enforcement officials cannot guarantee that they'll recover your money.* The law holds you responsible for the development of communications systems for your license. Remember, there may be no market for your license, partnership, or LLC share. Until you construct a system for the license, arrangements to sell or lease your license may violate FCC rules and cause you to lose your license entirely.
- ◆ *File a complaint if you have been defrauded.* Even sophisticated investors get scammed. Law enforcement cannot work effectively if injured parties do not come forward. The government does not charge you to file a complaint and has cost-free ways to report your experiences.

You may file complaints with the Securities and Exchange Commission, Division of Enforcement, Washington, DC 20549, your state Attorney General or Securities Division. For more information on a particular type of FCC license, call the Federal Communications Commission at 202-418-0569.

To file a complaint with the Federal Trade Commission, contact the Consumer Response Center (CRC) by phone: 202-FTC-HELP (382-4357); TDD: 202-326-2502; by mail: Consumer Response Center, Federal Trade Commission, Washington, DC 20580; or by e-mail: use the complaint form at [www.ftc.gov](http://www.ftc.gov). You also may contact the CRC to order free brochures that explain fraudulent sales practices and how you can avoid them.